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DONOVAN E. WALKER
Lead Counsel
dwalker@idahopower.com

October 10, 2014

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

Re: Case No. IPC-E-14-22
Confirming Use of Capacity Deficiency Period in IRP Methodology – Idaho Power Company's Reply Comments

Dear Ms. Jewell:

Enclosed for filing in the above matter please find an original and seven (7) copies of Idaho Power Company's Reply Comments.

Very truly yours,

Donovan E. Walker

DEW:csb
Enclosures

1221 W. Idaho St. (83702)
P.O. Box 70
Boise, ID 83707

DONOVAN E. WALKER (ISB No. 5921)
Idaho Power Company
1221 West Idaho Street (83702)
P.O. Box 70
Boise, Idaho 83707
Telephone: (208) 388-5317
Facsimile: (208) 388-6936
dwalker@idahopower.com

Attorney for Idaho Power Company

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR CONFIRMATION OF THE CAPACITY DEFICIENCY PERIOD FOR INCREMENTAL COST, INTEGRATED RESOURCE PLAN, AVOIDED COST METHODOLOGY.	)	CASE NO. IPC-E-14-22 IDAHO POWER COMPANY'S REPLY COMMENTS

I. INTRODUCTION

Pursuant to the Idaho Public Utilities Commission's ("Commission") Order No. 33147, Commission Staff ("Staff"), Intermountain Energy Partners, LLC ("IEP"), and the Idaho Conservation League ("ICL") filed Comments on October 6, 2014. Idaho Power Company ("Idaho Power" or "Company") now files these Reply Comments.

II. DISCUSSION

Idaho Power's request for the Commission to confirm the Company's proper use of a capacity sufficiency through July of 2021 in the estimation of negotiated avoided cost rates pursuant to the approved incremental cost, Integrated Resource Plan ("IRP") methodology is just, reasonable, in the public interest, and assures that customers do not pay more than the Company's avoided cost in 20-year power purchase obligations. As acknowledged and recommended by Staff, the public interest requires that avoided cost rates be as accurate as possible, especially given that the difference to customers could be as much as $170 million over the next 20 years. Staff Comments, p. 6. In summary, Staff recommends that the Commission approve Idaho Power's request to confirm use of a first capacity deficit of July 2021 for purposes of avoided cost prices determined by the incremental cost IRP methodology. *Id.* Staff discusses how it would be unreasonable to include such capacity deficiency determination for the purposes of avoided cost rates determined for the Surrogate Avoided Resource ("SAR") methodology and not for the IRP methodology. *Id.* Staff also discusses how the Commission's clear intent from Order No. 32697 is that the Company only begins payments for capacity at such time that the utility becomes capacity deficient. *Id.,* pp. 5-6. The Company agrees with Staff and asks the Commission to confirm use of a first capacity deficit of July 2021 for purposes of avoided cost rates determined by the incremental cost IRP methodology.

A. <u>Use of a July 2021 First Capacity Deficit is a Reasonable Estimate for Use in the IRP Methodology's Estimate of Avoided Cost Prices Rates</u>.

As set forth in Idaho Power's Application, Case No. IPC-E-13-21 established, in a contested proceeding, that it was just and reasonable to utilize a first capacity deficit of July 2021 based upon the unusual situation whereby the Company's demand response ("DR") programs were suspended in 2013 (*See* Case No. IPC-E-12-29) and not included in the IRP's preferred resource portfolio that established a first capacity deficit of 2016. However, shortly thereafter, in Case No. IPC-E-13-14, the Company entered into a stipulation with the parties to that proceeding (which included Staff and ICL among several others) that reinstated the DR programs, and required the Company to take all DR up to approximately 440 megawatts ("MW"). As established in the Commission's final determination on reconsideration in Case No. IPC-E-13-21, the additional evidence that the Company had enrolled DR participation for 2014 that exceeded 400 MW was confirmation that it was appropriate to utilize the capacity deficit projection that was sought by the Company in that case—which shows a first capacity deficit of July 2021. The Commission, after initially finding a first capacity deficit of 2013, ultimately determined, based upon the testimony and evidence submitted, that it was appropriate to utilize the July 2021 first capacity deficit for avoided cost rates. Order No. 33084.

As discussed by Staff, Order No. 32697, from Case No. GNR-E-11-03, is clear that the Commission intends that a utility will NOT pay for capacity as part of avoided cost rates when the utility is in a capacity sufficient position. Moreover, the IRP methodology is meant to be a more flexible, negotiated process whereby a more accurate representation of avoided costs can be determined and reduced to an appropriate obligation that is passed on to Idaho Power's customers for the next 20 years. The Commission clearly intended, in Order No. 32697, that the utility's capacity deficiency be updated, and that a capacity payment be reflected in avoided cost rates only for those times that the utility is capacity deficient.

> In computing avoided cost rates under the IRP Methodology, each of the three utilities already employs a two-step approach in which energy and capacity values are computed separately. In calculating a QF's ability to contribute to a utility's need for capacity, we find it reasonable for the utilities to only begin payments for capacity at such time that the utility becomes capacity deficient. If a utility is capacity

> surplus, then capacity is not being avoided by the purchase of QF power. By including a capacity payment only when the utility becomes capacity deficient, the utilities are paying rates that are a more accurate reflection of a true avoided cost for the QF power.

Order No. 32697, p. 21. Idaho Power believes the correct avoided cost pricing for all proposed Public Utility Regulatory Policies Act of 1978 ("PURPA") projects takes into account the determined first capacity deficit of July 2021. To do otherwise would violate PURPA, as customers would be paying costs that are substantially above the Company's avoided cost.

B. <u>The Comments of IEP and ICL are Unpersuasive and Without Merit</u>.

IEP and ICL both disagree with the use of a first capacity deficit determination of July 2021, and both raise issues related to the actual level of DR program dispatch for 2014 referring to DR as "short-term." IEP Comments, pp.1-3; ICL Comments, p. 3. IEP goes as far as to state that the 2021 determination should be rejected because "[s]ubsequent events . . . call into question the accuracy of the assumed level of actual demand response dispatch." IEP Comments, p. 1. IEP cites to discovery materials showing various levels of actual MW utilization for the various DR programs in 2014, implying that this somehow invalidates a first capacity deficit determination of 2021. IEP Comments, pp. 1-2. This is an erroneous view for several reasons. First, there has been no significant change in the actual level of participants that enrolled in the DR programs from that reported in Case No. IPC-E-13-21 at 403 MW. The way that the various programs work does not translate to flipping a switch whereby all 403 MW comes on and off at will to meet the capacity needs of the Company. Cumulatively, there was no single event whereby all 403 MW of DR potential was activated at the same time. However, all three programs were dispatched, or called upon, several times throughout 2014 and contributed MW reductions that exceeded any identified capacity deficits for 2014 and beyond.

Additionally, this approach—of arguing that some variation from actual numbers invalidates an avoided cost estimation—is without merit. The Commission did not determine that the actual amount of 403 MW that enrolled in DR programs for 2014 was what established the first capacity deficit of July 2021. The 403 MW actual number was used to validate the Company's first deficit projection, filed with its Application, Table 3, p. 4, in Case No. IPC-E-13-21. The 2021 first capacity deficit is an estimation based upon the inclusion of up to 440 MW of DR, as the Company is required to accept pursuant the DR settlement stipulation in Case No. IPC-E-13-14. Like everything else that goes into establishing an avoided cost rate at the time of contracting that is locked in for the duration of the contract, the first capacity deficit is an estimation. The estimation to include up to 440 MW of DR through 2021 was deemed reasonable and accepted by the Commission. This estimation was verified as reasonable by the evidence that the participation in the DR programs, by enrolling at levels over 400 MW in 2014, was not decimated by the suspension of the programs in 2013 and that it was reasonable to assume continued participation at similar levels into the future. As we are all well aware, the Federal Energy Regulatory Commission ("FERC") takes the view that once rates are determined and set in a contract or obligation for the 20-year duration of that obligation, they are deemed correct and reasonable, even if it is later determined that actual numbers were significantly different. Additionally, FERC will assume that all costs for the duration of the 20-year term were included at the time of contracting, even in the face of direct evidence that certain costs were not part of the methodology, nor included. FERC will maintain an assumption that all costs were considered and included regardless. Thus, it is the reasonableness of the DR program participation estimate of inclusion of up to 440 MW through 2021, and not the actual enrollment of 403 MW for 2014, that establishes the first capacity deficit utilized in avoided cost rates.

ICL advocates to somehow defer the determination sought in this matter, and recommends updating the capacity deficiency at the time of the annual October 15 avoided cost update and as part of the 2015 IRP. ICL Comments, p. 1. The incremental cost IRP avoided cost methodology WILL update at both of those identified times and processes. However, ICL misunderstands the issues here regarding the locking in and establishment of a 20-year avoided cost rate at the time of contracting, and ensuring that customers are not overpaying for PURPA resources—paying above the avoided cost—by making the most accurate estimate of avoided costs that can be made at the time. Additionally, ICL advocates for the use of the October 15 annual update to litigate load and resource balance issues, acknowledging that "this will lead to a complex, time-consuming process . . . ." ICL Comments, p. 6. This again, in much the same way that ICL's motion for additional time erroneously tried to paint things as significant, complex, and technical, is not correct. The October 15 update is a compliance filing, reviewed by Staff, and not a forum for re-litigating issues from Case No. GNR-E-11-03.

ICL erroneously states again, as it did in its motion for additional time, that the issues in this case have no direct impact on customer rates. ICL Comments, pp. 1-2. It is difficult to understand this statement when all PURPA expense is passed directly through to customers at 100 percent on an annual basis through the Company's annual

Power Cost Adjustment (PCA). The difference in avoided cost rates at issue here—whether capacity payments are made to a qualifying facility ("QF") when the utility is capacity sufficient through 2021—is approximately $6.3 million for every 20 MW project. Right now, Idaho Power has 13 solar QF contracts in the final stages of contract negotiation and execution representing approximately 381 MW seeking to obligate customers to 20-year locked in rates. There is a significant and direct impact to customers upon the inclusion of the proper capacity sufficiency period through July of 2021.

In discussing the incremental cost IRP methodology, ICL erroneously states that "a QF commits to deliver energy in a specific hour" in a strained argument that the IRP methodology "does not require an extrinsic determination of a utility's resource deficiency date." ICL Comments, pp. 4, 5. This is absolutely incorrect. First of all, a QF makes no such commitment to deliver any amount in any specific hour. All QF projects will deliver if, when, and in whatever amounts they can or choose to—and Idaho Power must accept and take these if, when, and in whatever amount the QF determines it will put that energy to the utility. Secondly, a determination of capacity sufficiency is absolutely required in order to comply with the Commission's requirement that the utility not pay for capacity at such times as the utility is capacity sufficient. Order No. 32697, p. 21.

ICL argues, as it did in its motion, that "this case raises significant and complex technical issues that are unique to using the Integrated Resource Plan methodology for avoided costs." ICL Motion, p. 2. This is simply not the case. This case is neither complex, nor technical, and does not require any calculations or modeling involved with the IRP methodology. This case directly and simply involves the correct application of the Commission's resource sufficiency determination—which the Commission has all ready found just and reasonable for SAR avoided cost rates—for the Company's negotiated avoided cost rates. The Commission determined in Case No. IPC-E-13-21 that with the inclusion of up to 440 MW of DR as referenced in the approved stipulation from Case No. IPC-E-13-14, the Company's capacity sufficiency extends to July of 2021. Whether the capacity component of avoided cost rates determined pursuant to the approved incremental cost IRP methodology is included starting in 2016, or included starting in 2021, does not require any calculation or re-running of any modeling. The capacity component of avoided cost rates is what it is. It is determined pursuant to the Commission's direction in its final orders from Case No. GNR-E-11-03. Payment of a separate capacity component of the rate is not a model input. The capacity component is separately determined and is simply removed for those years that the Company is capacity sufficient.

The determination sought in this case is not a fact-based challenge to the avoided cost methodology. That is settled by the final, non-appealable orders from Case No. GNR-E-11-03. Additionally, this case does not involve a fact-based determination of the Company's capacity deficiency period. That is settled by the final, non-appealable orders from Case No. IPC-E-13-21. This case seeks a legal determination from the Commission that the Company's use of the capacity sufficiency period established in Case No. IPC-E-13-21 is appropriate for use in negotiated avoided cost rates. ICL's representations that this case raises "complex" and "technical" issues are simply not the case.

Lastly, ICL talks about how the IRP is the best place to analyze such issues. ICL Comments, pp. 6-8. As Idaho Power set forth in its Application, both the SAR and the IRP methodologies start with a default capacity deficit which is the same as that established by the most recent IRP planning process. For the 2013 IRP planning process, a first deficit was identified as 2016 in the preferred resource portfolio. However, because of the suspension of the Company's DR programs in 2013 at the time the 2013 IRP was finalized and filed with the Commission, the first deficit of 2016 legitimately did not consider the approximate 440 MW of DR. Subsequent to the filing of the 2013 IRP, the Company entered into a settlement stipulation regarding its DR programs, which was subsequently approved by the Commission. This stipulation obligated the Company to accept up to 440 MW of DR. For 2014, the Company received actual subscribed customers to its DR programs that exceeded 400 MW. Consequently, the Commission updated the Company's first deficit from the IRP planning process to now include consideration of the Company's DR programs, which were not considered in the preferred resource portfolio of the IRP. This resulted in the Commission-approved first deficit of July 2021 for avoided cost rates established by the SAR methodology. It would be unjust, unreasonable, and not in conformity with PURPA to require customers to pay for capacity when the Commission has separately determined the Company to be capacity sufficient for purposes of avoided cost rates.

III. CONCLUSION

Idaho Power respectfully requests that the Commission issue an order confirming use of a first capacity deficit of July 2021 for purposes of avoided cost rates determined by the incremental cost, IRP methodology, effective as of the Commission's determination of July 2021 capacity sufficiency on July 30, 2014. Case No. IPC-E-13-21, Order No. 33084. This determination is a straightforward application of the Commission's prior orders to the present negotiated avoided cost rate determinations relevant to several pending contracts. It has a direct and substantial potential effect upon Idaho Power customers estimated to be a difference of more than $170 million in avoided cost rates locked in for the next 20 years. This determination is consistent with and upholds the Commission's directive that the utility and its customers not pay for capacity during those time in which the utility is capacity sufficient. This determination is also entirely consistent with the way in which the IRP methodology is meant to be a more flexible, negotiated process whereby a more accurate representation of avoided costs than that contained in the SAR methodology can be determined and reduced to an obligation that is passed on to Idaho Power's customers for the next 20 years. The Commission clearly intended, in Order No. 32697, that the utility's capacity deficiency be updated, and that a capacity payment be reflected in avoided cost rates only for those times that the utility is capacity deficient. Idaho Power respectfully requests that the Commission issue an order confirming use of a first capacity deficit of July 2021 for purposes of avoided cost prices determined by the incremental cost, IRP methodology.

Respectfully submitted this 10th day of October 2014.

DONOVAN E. WALKER
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 10th day of October 2014 I served a true and correct copy of IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff Kristine A. Sasser Deputy Attorney General Idaho Public Utilities Commission 472 West Washington (83702) P.O. Box 83720 Boise, Idaho 83720-0074	_X_ Hand Delivered ____ U.S. Mail ____ Overnight Mail ____ FAX _X_ Email kris.sasser@puc.idaho.gov
Idaho Conservation League Benjamin J. Otto Idaho Conservation League 710 North 6th Street Boise, Idaho 83702	____ Hand Delivered _X_ U.S. Mail ____ Overnight Mail ____ FAX _X_ Email botto@idahoconservation.org
Intermountain Energy Partners, LLC Dean J. Miller McDEVITT & MILLER LLP 420 West Bannock Street (83702) P.O. Box 2564 Boise, Idaho 83701	____ Hand Delivered _X_ U.S. Mail ____ Overnight Mail ____ FAX _X_ Email joe@mcdevitt-miller.com heather@mcdevitt-miller.com
Leif Elgethun, PE, LEED AP Intermountain Energy Partners, LLC 1775 State Street (83702) P.O. Box 125 Boise, Idaho 83701	____ Hand Delivered _X_ U.S. Mail ____ Overnight Mail ____ FAX _X_ Email leif@sitebasedenergy.com

Christa Bearry

Christa Bearry, Legal Assistant